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MORRIS
HOME HOLDINGS LIMITED

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慕容家居控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

CONTINUING CONNECTED TRANSACTION MASTER RAW MATERIALS PROCUREMENT AGREEMENT

MASTER RAW MATERIALS PROCUREMENT AGREEMENT

On 9 December 2022, the Company has entered into the Master Raw Materials Procurement Agreement with Royale Home, pursuant to which members of the Group will purchase the Raw Materials from members of the Royale Home Group for a term commencing on the date of the Master Raw Materials Procurement Agreement (i.e. 9 December 2022) and ending on 31 December 2022.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Tse indirectly holds 1,300,038,000 Shares, representing approximately 47.27% of the issued Shares, through Century Icon Holdings Limited. Mr. Tse is therefore a controlling shareholder of the Company, and is also an executive Director. Mr. Tse is also holding (together with his controlled companies and parties acting in concert with him) 1,945,391,280 shares of Royale Home (representing 74.86% of the issued share capital of Royale Home). Royale Home is therefore an associate of Mr. Tse and a connected person of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual cap for the Raw Materials Procurement exceed 0.1% but all are below 5%, the Raw Materials Procurement constitutes a continuing connected transaction for the Company and is subject to the reporting, announcement and annual review requirements but is exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board announces that on 9 December 2022, the Company has entered into the Master Raw Materials Procurement Agreement with Royale Home, pursuant to which members of the Group will purchase the Raw Materials from members of the Royale Home Group for a term commencing on the date of the Master Raw Materials Procurement Agreement (i.e. 9 December 2022) and ending on 31 December 2022.

MASTER RAW MATERIALS PROCUREMENT AGREEMENT

Date

9 December 2022

Parties

- (i) the Company; and
- (ii) Royale Home.

Principal terms

Pursuant to the Master Raw Materials Procurement Agreement, members of the Group will purchase the Raw Materials from members of the Royale Home Group on a non-exclusive basis, subject to the entering into of individual contracts as agreed between members of the Group and the Royale Home Group.

Members of the Group can also purchase the Raw Materials from third parties not being a member of the Royale Home Group and not a connected person of the Company as they think fit.

Term

The Master Raw Materials Procurement Agreement shall be effective for a term commencing from the date of the Master Raw Materials Procurement Agreement (i.e. 9 December 2022) and ending on 31 December 2022 (both days inclusive).

Payment

The purchase price payable under the Master Raw Materials Procurement Agreement will be settled in cash or by way of bank transfer.

The time of payment will be negotiated and determined and agreed between the parties in the individual contracts to be entered into by the parties pursuant to the Master Raw Materials Procurement Agreement.

PRICING PRINCIPLES

Pursuant to the terms of the Master Raw Materials Procurement Agreement, the Raw Materials Procurement shall be conducted on normal commercial terms, in particular: (i) the Raw Materials Procurement will be on terms no less favourable to the Group than terms available to independent third parties based on its internal control measures; (ii) the Raw Materials Procurement will be conducted in the ordinary and usual course of business of the Group and after arm's length negotiations; and (iii) the transaction amount of the Raw Materials Procurement will not exceed the annual cap.

The prices of the Raw Materials to be purchased by the Group from the Royale Home Group shall be determined with reference to the prevailing market prices of comparable raw materials of similar type, quantity and quality. In order to ascertain the prevailing market prices, the Company will obtain at least two price quotations for the Raw Materials of similar type, quantity and quality from independent third party suppliers.

Upon obtaining the quotations, the procurement department of the Group will review and compare such quotations with the prices available to the Group under the Master Raw Materials Procurement Agreement before the entering into of individual contracts pursuant to the Master Raw Materials Procurement Agreement.

In the event that the prices of the Raw Materials available to the Group from the Royale Home Group are less favourable to the Group than the price quotations offered by independent third party suppliers to the Group for comparable raw materials of similar quality, type and quantity, the Group will not enter into such Raw Materials Procurement.

The Group will at its best effort further negotiate with the Royale Home Group for fair terms in order to comply with the pricing principles of the Company as disclosed above.

ANNUAL CAP

The annual cap for the Raw Materials Procurement under the Master Raw Materials Procurement Agreement for the period commencing from 9 December 2022 and ending on 31 December 2022 is RMB18,000,000.

Shareholders and potential investors of the Company should note that the above annual cap is not intended, and does not purport, to be an indication of the Group's future performance or profitability. Shareholders or potential investors of the Company should not rely on the annual cap in deciding how or whether or not to deal in the Shares.

Basis of the annual cap

There was minimal historical transaction amount for the fully exempt procurement of raw materials between the Group and the Royale Home Group, the percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of which are all less than 0.1%.

The annual cap was determined by the Company after taking into account of (i) the estimated demand for the Raw Materials of the Group from 9 December 2022 to 31 December 2022; (ii) the expected procurement prices of the Raw Materials from 9 December 2022 to 31 December 2022; and (iii) an approximately 10% buffer in order to provide flexibility to the Company in case of any unforeseen increase in demand of Raw Materials or fluctuation in prevailing market prices.

INFORMATION OF THE RAW MATERIALS

The Raw Materials to be procured by members of the Group from members of the Royale Home Group pursuant to the Master Raw Materials Procurement Agreement are raw materials for manufacturing sofas and other furniture products, including wood plank, cloth, iron frame and packaging materials. The Raw Materials Procurement are conducted in the ordinary course of business of the Group.

REASONS FOR AND BENEFITS OF THE RAW MATERIALS PROCUREMENT

The Group is principally engaged in the manufacturing and sales of sofas, sofa covers and other furniture products. The continuing relationships are expected to bring synergies to the Group and the Royale Home Group, which is expected to benefit both parties as the terms of the Raw Materials Procurement would be on normal commercial terms and with reference to the prevailing market terms, and the Raw Materials Procurement will be conducted after arm's length negotiations. The Raw Materials Procurement would allow the Group with stable supply of raw materials required for the manufacturing of its products on reasonable terms which will be no less favourable to the Group than those available from independent third parties.

The Directors (including the independent non-executive Directors) are of the view that the Master Raw Materials Procurement Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group, on normal commercial terms (which were arrived at after arm's length negotiations) and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As (i) Mr. Tse is a controlling shareholder and an executive director of Royale Home; (ii) Mr. Tse Hok Kan is a son of Mr. Tse; and (iii) Mr. Chong Tsz Ngai is a son-in-law of Mr. Tse, they are deemed to be materially interested in and have therefore abstained from voting on the resolutions of the Board approving the Master Raw Materials Procurement Agreement and the transactions contemplated thereunder.

INTERNAL CONTROL MEASURES

In accordance with the Listing Rules, the Company will comply at all times with the applicable provisions under Rules 14A.34 to 14A.59 of the Listing Rules in respect of the Raw Materials Procurement. In addition, in order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted the following guidelines and principles for monitoring the Raw Materials Procurement between the Group and the Royale Home Group, namely:

- the management of the Company will regularly conduct market research and gather relevant information (including obtaining quotations from independent third party suppliers) to ascertain and monitor the prevailing market prices of raw materials so as to ensure that the prices of the Raw Materials Procurement will be no less favourable to those available from independent third parties.
- the Group has established a series of measures and policies to ensure that the transactions will be conducted in accordance with the terms of the Master Raw Materials Procurement Agreement, including but not limited to: (i) the relevant business units and departments of the Group will monitor and review the prices and terms in respect of the Raw Materials Procurement regularly in order to ensure that the Raw Materials Procurement are conducted on normal commercial terms, in accordance with the annual cap set by the Company and the terms are no less favourable to the Group than those available from independent third parties; (ii) the Company will designate specific personnel from the internal control department to monitor the transactions under the Master Raw Materials Procurement Agreement and will report to the management of the Company regularly in relation to such transactions; and (iii) the Group will also conduct random internal checks on a quarterly or more frequent basis to ensure that the internal control measures in respect of the transactions under the Master Raw Materials Procurement Agreement remain intact and effective.
- the relevant business units and departments of the Group will monitor and collect market information on the prices and terms in respect of the Raw Materials Procurement regularly.
- the Company will review the transactions with the Royale Home Group to identify any continuing connected transaction that may be at risk of exceeding the annual cap, and any measures to be taken in respect of such transaction(s).
- the Company will report the transactions under the Master Raw Materials Procurement Agreement to the independent non-executive Directors during each of the audit committee meetings (if necessary) according to the audit committee meeting agenda.

- the transactions contemplated under the Master Raw Materials Procurement Agreement will be reviewed by the independent non-executive Directors every year and reported in the annual reports of the Company, which provides a check and balance to ensure that the transactions were conducted in accordance with the terms of the Master Raw Materials Procurement Agreement, on normal commercial terms (or terms no less favourable than terms available to the independent third parties), and in accordance with the pricing principles of the Company and the annual cap pursuant to the Listing Rules.
- the Company's independent auditor will be engaged to report on the continuing connected transactions under the Master Raw Materials Procurement Agreement, which would, for the purpose of Rule 14A.56 of the Listing Rules, assist the Board in ensuring that the transactions under the Master Raw Materials Procurement Agreement: (i) have proper Board approval; (ii) have in all material respects, been conducted in accordance with the pricing policies of the Group; (iii) were entered into, in all material respects, in accordance with the Master Raw Materials Procurement Agreement; and (iv) have not exceeded the annual cap set by the Company.

INFORMATION ON THE PARTIES

Information on the Company and the Group

The Company is incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1575). The Group is principally engaged in the manufacturing and sales of sofas, sofa covers and other furniture products.

Information on Royale Home and the Royale Home Group

Royale Home is a company incorporated in the Cayman Islands with limited liability, the share of which are listed on the Main Board of the Stock Exchange (stock code: 1198). The Royale Home Group is principally engaged in the design, sale and manufacture of furniture and trading of commodities.

As at the date of this announcement, Mr. Tse is holding (together with his controlled companies and parties acting in concert with him) 1,945,391,280 shares of Royale Home, representing 74.86% of the issued share capital of Royale Home.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Tse indirectly holds 1,300,038,000 Shares, representing approximately 47.27% of the issued Shares, through Century Icon Holdings Limited. Mr. Tse is therefore a controlling shareholder of the Company, and is also an executive Director. Mr. Tse is also holding (together with his controlled companies and parties acting in concert with him) 1,945,391,280 shares of Royale Home (representing 74.86% of the issued share capital of Royale Home). Royale Home is therefore an associate of Mr. Tse and a connected person of the Company under Chapter 14A of the Listing Rules.

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DEFINITIONS

In this announcement, the following expressions shall have the respective meanings set opposite thereto:

“acting in concert”	has the same meaning ascribed to it in the Takeovers Code
“Board”	the board of Directors
“Company”	Morris Home Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (stock code: 1575)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Raw Materials Procurement Agreement”	the Master Raw Materials Procurement Agreement dated 9 December 2022 entered into between the Company and Royale Home, pursuant to which members of the Group will procure the Raw Materials from members of the Royale Home Group
“Mr. Tse”	Mr. Tse Kam Pang, being the chairman of the Board and an executive Director, and a controlling shareholder of the Company who is indirectly interested in 1,300,038,000 Shares, representing approximately 47.27% of the issued Shares as at the date of this announcement

“PRC”	the People’s Republic of China
“Raw Materials”	raw materials for manufacturing sofas and other furniture products to be procured by the Group from the Royale Home Group under the Master Raw Materials Procurement Agreement
“Raw Materials Procurement”	the procurement of the Raw Materials by the Group from the Royale Home Group pursuant to the Master Raw Materials Procurement Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Royale Home”	Royale Home Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (stock code: 1198)
“Royale Home Group”	Royale Home and its subsidiaries
“Share(s)”	ordinary shares with a par value of US\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“%”	per cent.

By order of the Board
Morris Home Holdings Limited
Tse Kam Pang
Chairman and Executive Director

Hong Kong, 9 December 2022

As at the date of this announcement, the executive Directors are Mr. Tse Kam Pang, Mr. Chong Tsz Ngai and Mr. Zou Gebing; the non-executive Directors are Mr. Tse Hok Kan and Ms. Wu Xiangfei; and the independent non-executive Directors are Professor Lee Chack Fan, Professor Kwan Pun Fong Vincent and Ms. Chen Jianhua.